Happy Forgings Limited

Instrument	Amount In Rs Crore	Rating Action
Term Loans	133.52	Assigned at [ICRA] BBB; Outlook Stable
Fund-based Working Capital Limits	75.00	Assigned at [ICRA] BBB; Outlook Stable
Non Fun-based Working Capital Limits	31.44	Assigned at [ICRA] A3+
Unallocated Bank Loans	30.04	Assigned at [ICRA] BBB/ [ICRA] A3+; Outlook Stable
Total	270.00	

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced as ICRA Triple B) and short-term rating of [ICRA]A3+ (pronounced as ICRA A three plus) to the Rs 270.0 crore[1] bank loans of Happy Forgings Limited (HFL) †. The outlook on the long-term rating is Stable.

The ratings take into consideration HFL's healthy and improving profitability on the back of consistently increasing capacity utilisation of machining and press forging facility, diversified revenue streams across commercial vehicle, tractors, off-the-road vehicles, and railways, limited concentration with no single customer contributing more than 15% of the revenue in FY2015 and FY2016, and experienced management with over three decades of experience in the auto forgings industry. The company's operating profit margins have increased from 16.2% in FY2013 to 20.2% in FY2016 as the proportion of machining revenues have increased from 45% of total revenues in FY2013 to 67% in FY2016. The company has consistently increased its machining capacity to compliment the forging capacity. As a result, the expanded machining capacity is utilised at about 80% in FY2016 compared to 71% in FY2013 as the company added new customers and increased its share of business from the existing customers as well. The company supplies to both original equipment manufacturers and Tier I component suppliers with top 10 clients contributing to about 70% of the revenues.

HFL's ratings are, however, constrained by moderate gearing levels and debt coverage indicators such as interest coverage and debt service coverage ratio (DSCR), significant capital expenditure and working capital requirements, and vulnerability to economic cycles due to its focus on the commercial vehicles (CV) and the tractor segments. HFL's gearing, though improved from 4.8x in FY2013 to 2.1x in FY2016, still remains moderately high. As a significant part (about 70%) of the total debt comprises long-term loans with significant repayments in the medium term, any sharp decline could stress the liquidity position of the company. While HFL has moderate working capital intensity, as reflected in NWC/ OI of 30%, which is largely funded through short-term borrowings, the improving net cash accruals on account of revenue growth and margin expansion has supported the consistent improvement in its credit metrics. HFL's interest coverage ratio stands at 2.6 times and DSCR at 1.5 times in FY2016, compared to weak levels of 1.3 times and 0.7 times respectively in FY2013. ICRA notes that the company could continue to deleverage over the medium term despite its proposed capital expenditure towards additional forging and machining capacity on account of a recovery in CV / tractor volumes, increasing share of business from existing customers, and additions of new customers.

Thus, the company's ability to deleverage to meaningful levels while maintaining revenue and profitability growth in the near to medium term would be the key rating sensitivities.

Company Profile

HFL was established in 1979 by Mr. Paritosh Kumar Garg as a private limited company and was converted into a public limited company in 1988. It supplies forged and machined transmission and engine components to the automotive sector. The product range includes automotive crankshafts, steering knuckles, transmission gears, pinions, shafts, spiders, bull gears, differential cases, and forged/machined locomotive components for the Railways. The key customers include Ashok Leyland ([ICRA]AA-/Stable), Volvo Eicher Commercial Vehicles India Limited ([ICRA]AA+/Stable), Graziano Transmissions India Private Limited, JCB India Limited, and Escorts Limited ([ICRA]A-/Stable). The company has a total forging capacity of 46000 MT (both Hammer and Press Forging) and machining capacity of 18000 MT at end of FY2016.

[1] 100 lakh=1 crore= 10 million

Recent Results

HFL reported an operating income of Rs. 375.62 crore and profit after tax (PAT) of Rs 16.96 crore in FY2016 as against operating income of Rs. 341.93 crore and profit after tax (PAT) of Rs 14.80 crore in FY2015.

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